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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE OCTOBER 1986

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OCTOBER 1986

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Tales of Trucking Success

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A REAL LAISSEZ-FAIRE ATTITUDE

Asking distribution and transportation managers about the government's role in their industry apparently is like asking grandparents about their grandchildren. Judging from the volume of responses we received, there is no shortage of opinions about Uncle Sam's operating role in entities such as Amtrak, Conrail and the U.S. Postal Service. And it shouldn't take you more than one guess to figure out what the vast majority of our readers said.

"Let each operate on their own with as little government interference as possible – sink or swim!" **– Dick Scott, traffic mgr., NORPAC, Lake Oswego, OR.**

"The government's role should be completely eliminated. The government cannot run a business. They are over budget every year. I wonder how long I could do that and still stay in business?" **– Manny Miyar, general mgr., Kuehne & Nagel Distribution Services, Elk Grove, IL.**

"The merchants will manage commerce the better, the more they are left free to manage for themselves." **– Thomas Jefferson, 1800, as submitted by Michael A. Cook, materials mgr., Frick-Gallagher, Lancaster, OH.**

continued

I would like to see the Postal Service:	
become completely privatized	66%
be forced to privatize in unprofitable areas	19%
continue to make its own privatization choices	13%
I would like to see Amtrak:	
become completely privatized	71%
be forced to privatize in unprofitable areas	13%
continue to make its own privatization choices	16%
I would like to see the federal gov't decrease its support of the shipping industry through subsidies	74%
I would like to see the federal gov't increase financial involvement in highways, airports, ports, etc	50%
Final disposition of the Conrail question should see:	
a sale to Norfolk Southern or other bidder	51%
a public stock sale	47%
a continuation of the status quo	2%
I am opposed to increased user fees	59%

QUESTION OF THE MONTH

A NEW ORDER FOR THE BORDER?

A number of developing trends indicate an upcoming flurry of activity in U.S.-Canadian distribution patterns. First, the general trend toward a "global economy" is expected to receive renewed impetus from U.S. tax reform – which will not retain current incentives for domestic capital expenditures. This is expected to revive interest in offshore manufacturing and distribution facilities – and Canada's prime location and favorable exchange rate make it a good candidate for U.S. capital dollars.

Second, from a transportation standpoint, full-fledged Canadian deregulation (see "Will Canadian Deregulation Work?" Sept. 1986, p. 76) is expected to enhance carrier competition for transborder freight, no matter which side of the line it comes from. The new, relaxed regulatory structure will ease entry requirements and eliminate pricing controls. It may also lead to significant rate discounting.

All of these developments promise to raise some interesting questions in the coming months about U.S.-Canadian trade. We've put some of those questions on the card below, and invite you to provide some of the answers.

DIALOGUE October 1986

- I expect to be arranging transportation for _____an increased amount/_____a decreased amount/_____about the same amount of transborder (U.S./Canadian) freight in 1987 as I did in 1986.
- I expect freight rates for transborder traffic to _____increase/_____decrease/_____stay about the same as a result of Canadian transportation reform.
- I expect to use _____more/_____less/_____about the same number of carriers for transborder movements in the wake of Canadian transportation reform.
- I expect exchange rate fluctuations in the next two years to prove more advantageous to (check one only) _____U.S.-based carriers/_____Canadian carriers in the competition for transborder traffic.
- Canadian locations _____will/_____will not become more of an option in the future when my company looks for potential manufacturing, assembly or distribution sites.
- When selecting carriers for transborder freight movements, I am primarily looking for:

_____single-mode carriers operating out of one country only
_____single-mode carriers that have operating and interline agreements with a counterpart in the other country
_____single-mode carriers which own lines in both countries
_____multi-modal, multi-national carriers

Here's what I see my company doing in terms of U.S/Canadian transborder manufacturing and distribution for the rest of the 1980s:

_____

_____

_____

_____

_____

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of *DISTRIBUTION* editors:)

"While the world may not be shrinking as fast as some of the more vocal proponents of global marketing would suggest, the challenges of successfully implementing a worldwide marketing strategy are not insurmountable. What is required is a balanced view and approach to what is actionable."—**John G. Main, managing partner, Management Practice Consulting Partners.**

"In light of growing overcapacity in truck building, the trend toward a global economy has brought about a tendency toward cooperation: virtually every major truck manufacturer and OEM parts supplier in America and abroad is connected, joint-ventured or in license agreement with other manufacturers. What we are watching is a form of economic arbitrage on a global scale."—**Peter E. Rupp, president and ceo, Freightliner Corp.**

•

"The bottom line of this tax reform bill is that it will spur demand among consumers, through lower individual tax rates, but those people will be buying more imports."—**Robert Ragland, tax specialist, Nat'l Ass'n of Manufacturers.**

"The government's role should be that of a policeman guarding the welfare of the public, enforcer of laws. In other words, the federal government should GET OUT of the transportation business and STAY OUT of it!"—**T. Earl Van Sickle, Jr., mgr., Super-Exchange, Lehighton, PA.**

"Hands off! Let free enterprise work the way it should—let the users pay for the services."—**Craig Doffing, warehouse mgr., Levi Strauss & Co., Canton, MS.**

"In domestic situations, the government needs to keep its hands off. In international travel—air and steamship—our government needs to help foster development, without owning, to combat the help foreign flag carriers get from their governments."—**Marshall Gordon, controller, Pave Mark Corp., Atlanta, GA.**

"The government's role should be eliminated. If a company can't make it due to poor management it should be closed. The tax-paying public should not have to carry it."—**A.C. Jones, supervisor, shipping/warehouse, Morton-Thiokol, Moss Point, MS.**

"The private sector should operate these entities. If unfavorable conditions exist after a set period, bailout would be permitted."—**John Klosterman, traffic mgr., Navistar, Springfield, OH.**

"I am in favor of subsidization for U.S. flag ocean carriers to maintain a viable maritime fleet. Proposed user fees for U.S. customs entries should be eliminated quickly."—**Martin Christensen, traffic mgr., Silicon Systems, Tustin, CA.**

"The government's operating role should be killed—PRONTO!—**Edwin Boxx, Jr., mgr., Thickwistle & Splash Lines, Minneapolis, MN.**

"The government should have a minimum role. They should use a definite timetable to "withdraw" to give (these entities) an adjustment period—five years at most."—**William Gleaves, purchasing mgr., Borden Chemical, Bellevue, WA.**

"The government should continue to be involved *only* if that involvement is in the best national interest. This involvement would differ depending on the service and availability of alternatives."—**Thomas R. Hart, director, worldwide traffic, Burroughs Corp., Wayne, MI.**

"The government's role should be as an agency of last resort."—**Julio Alvarez, director of transportation, Burdine's, Miami, FL.**

"The government's role should be as a 'Big Brother.'"—**James Hart, traffic, Orchard Supply Hardware, San Jose, CA.**

"The government should get out of the transportation business—lock, stock, barrel and taxes!"—**Russell Roemmele, asst. exec. director, New Jersey Motor Truck Association, East Brunswick, NJ.**

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INDEX SUPPORT IS AVERAGE AT BEST

BY ROBERT J. BOWMAN (415) 752-4884

We love to average things out—wages, company profits, consumer consumption, batting performance, television viewing. Our hero is the Average Guy, an obsession which once prompted Woody Hayes to comment that you can drown in water with an "average" depth of three feet.

What constitutes the "average" private truck fleet? A.T. Kearney, Inc. has been trying to answer that difficult question for six years. In cooperation with the Private Truck Council of America (PTCA), Kearney issues an annual index that purports to show the cost of running a typical private operation. The report is broken down to some extent—separate figures are given for dry van costs versus tank trucks and reefers, union versus non-union—but the intent is to establish a benchmark against which fleets can measure themselves.

This year's index pegs the cost of running an average private fleet at $1.35 per mile, which has caused some fleet managers to sleep easier while giving others the sweats. After all, the index has no real competition. As Kearney's Fred Fukuchi puts it, "It's the *de facto* standard."

Useful or Useless?

Whether the index is of any practical use is another matter. Private fleet managers disagree over its effectiveness in guiding corporate policy, and some fear it obscures the real factors that go into making that ultimate choice between private and for-hire operations.

"We don't use it. I don't even see it," says Don Kitts, transportation manager for West Coast Grocery in Tacoma, Wash. "We have about 20 divisions to compare all over the country, and we keep our own reports that are much more meaningful than the PTCA's."

A subsidiary of Minnesota-based Super Valu Stores, Inc., West Coast Grocery runs its fleet of 73 power units and twice as many trailers at a cost "substantially more" than the index's $1.35 average, Kitts says. Although it's a PTCA member, the company believes "it isn't important to compare ourselves with somebody that isn't doing the same thing we are," he adds.

Herman Granberry, vice president and general manager of West Point Pepperell's transportation division, says the index "isn't definitive enough." The Georgia textile manufacturer, with a fleet of more than 750 vehicles, has three brackets for calculating costs: teams of drivers running linehaul cross-country; singles staying within 250 miles of the terminal; and locals who rarely venture farther than 20 miles. The longer the haul, the lower the per-mile cost.

Kearney's raw data presents another potential problem. Granberry says that "most private carriers don't know or don't count all their operation expenses, such as administration, personnel management and safety programs."

West Point Pepperell, affiliated with the Private Carrier Conference, has an average fleet cost of about $1 per mile, says Granberry. "We've got to stay in that range to stay in business," he adds.

Another PCC-affiliated private fleet manager, who requested anonymity, agrees. He runs a fleet of 19 tractors and 42 trailers, putting 200,000 miles on each vehicle per year. "Anybody who's running around in 1986 at $1.35 per mile in a dry van operation is either kidding himself or kidding his management," he feels. "My costs are $1.12." (Actually, Kearney puts the dry van average at $1.24).

This manager is also concerned about the accuracy of Kearney's data, but in a different way. "What I would investigate is whether or not the individual inputs aren't inflated just so somebody can take that report to his management and say, 'Look what a wonderful job I've done,' " he says.

The real benchmark, says this fleet manager, ought to be how private fleet costs compare with the best for-hire rate available in any mode. "I'm up against the lowest guy on the street," he notes. "That's my monthly report card."

continued

PRIVATE THOUGHTS

If you didn't hear, and there's still time, be advised that the **Private Carrier Conference** *made a change of dates for its annual meeting to October 6 and 7, at the Fairmont Hotel in New Orleans. Speakers at the conference will include Philip W. Hasseltine of the U.S. Department of Transportation, and Neil A. Springer, president and ceo of Navistar International Corp. In addition, workshop sessions will include: "Handling Exempt Commodities for Profit"; "Alcohol and Drug Abuse"; "The Impact of the New Tax Code on You and Your Private Fleet"; "Just-in-Time: Does It Give Private Fleets an Advantage?"; "Private Carrier-to-Private Carrier Trip Leasing: The Elimination of the 30-Day Rule"; "Dedicated Contract Carriage"; "Artificial Intelligence: Computers Go Beyond Crunching Numbers"; "Equipment Leasing: The Shape of Things to Come"; and "Satellite Determination Systems."*

Write in 418 on Reader Service Card

Due to an increase in customer demand, **Coors Transportation Co.** *has established a service center in the Louisville, Ky. area. Director Ed Cox explains that the center will serve the Midwest and Eastern regions, as well as the local Louisville area.*

Write in 418 on Reader Service Card

PRIVATE CARRIAGE continued

R&G Sloane Manufacturing Co., Inc., the Sun Valley, Calif. maker of plastic fittings, uses the index to gauge the effectiveness of its intrastate fleet. National Traffic Manager Jerome J. Wolf says the PTCA member's seven power units and 13 trailers operate at $1.28 per mile, on short runs. "I find it's a useful tool," he adds. "We can live without it, but we're interested in how we compare."

Comparing Apples With Apples

PTCA President Jack H. Meyers defends the cost index, noting that Kearney offers specialized data runs (at additional charge) tailored to individual situations. His firm, Central Soya Co., Inc., Fort Wayne, Ind., uses the supplementary service to compare itself with other private haulers in the animal and poultry feed business.

Even so, Central Soya's fleet of 175 tractors and 250 trailers doesn't comfortably fit the Kearney profile. Its costs range from $1 a mile to $1.60, with equipment utilization as low as 40,000 miles per year and as high as 125,000. Meyers says the disparities stem from regional differences in wages and terminal hours.

According to Kearney associate Karen Arsenault, the database includes as many variables as possible and factors them into the specialized runs. "If we included every specific situation in the main report, it would be hundreds of pages long," she says. "So we covered the most requested averages."

Arsenault downplays potential inputting problems. The survey carefully specifies all fleet costs to be included, while others are deliberately excluded. "We choose only

COST PER MILE TRENDS – PRIVATE FLEET COST INDEX

Cost Category	Tractor/Trailer Cost per Mile			
	1982	1983	1984	1985
General and Administrative	$0.08	$0.08	$0.08	$0.08
Drivers	0.52	0.55	0.57	0.59
Equipment	0.68	0.66	0.68	0.69
Total*	1.26	1.29	1.32	1.35

**Numbers may not add; they represent average costs for those companies that provided information to the PTCA/Kearney annual Private Fleet Cost Index.*

Is the PTCA/A.T. Kearney index a practical reflection of trucking costs, or just an interesting numbers game?

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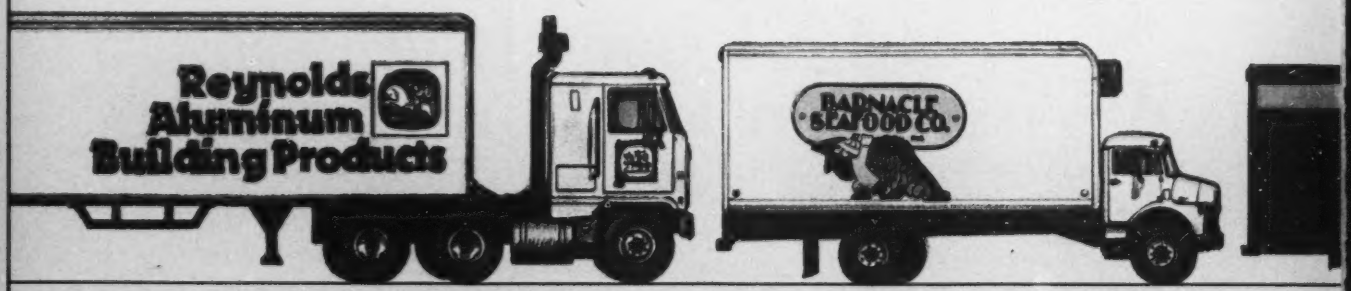

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those strict operating costs which are needed to make the wheels turn and deliver the freight," Arsenault says. "That allows us to compare apples and apples."

As for the chance that participating fleets will deliberately inflate their costs, Arsenault stresses that Kearney's computer is designed to highlight discrepancies. The firm interviews each company personally, providing ample opportunity for corrections. She adds that many respondents submit year-to-date figures drawn straight from their accounting departments.

Private Carrier, Know Thyself

There is at least one alternative to the Kearney index. Peat, Marwick & Mitchell offers a computerized costing model tailored to private fleets. Richard Ross, national director of motor carrier consulting, says the company's database "allows you to compare yourself with an average carrier given certain operational parameters—geography, union or non-union, payload, equipment, own versus lease, one-way linehaul loaded miles."

Employing up to 133 variables, Peat Marwick's model lets companies compare their fleets in three ways: with the industry as a whole, against the company's own standards, and against an actual trip. What's more, year-to-year costs are restated in equal dollars, avoiding confusion over inflation rates.

"We wind up with a required cash flow that those assets would be required to generate," says Ross. At the same time, he isn't critical of the Kearney approach. "I don't discount what they're doing. It's a reasonable approach to the mass handling of data."

Most companies agree that the Kearney cost index is useful to a point. But they add that the notion of creating an "average" private trucker, or of pitting one fleet against another, has its limits. "We only compete against ourselves," says West Coast Grocery's Don Kitts—suggesting that while averages are instructive, the best source for comparison lies in your own backyard. □

PRIVATE FLEET OPERATING STATISTICS

Description	1984	1985
Miles driven	1,496 million	1,463 million
Avg. miles per trip	921	911
Number of drivers	21,971	20,882
Miles per driver	78,600	79,100
Number of tractors	16,366	15,067
Avg. miles per tractor	100,600	101,900
Avg. Tractor age	3 years	3 years
Avg. tractor mpg	5.5	5.6

The PTCA Index factors out specific components of private fleet operations, but some question the value of averages of any kind.

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